

**Meeting Minutes
Virginia Board of Education
Committee on the Standards of Quality**

Tuesday, June 27, 2006

Dr. Gary Jones, chairman of the committee, opened the meeting. Committee members present were Mr. David Johnson, Dr. Thomas Brewster, Mrs. Isis Castro, Mrs. Eleanor Saslaw, and Mr. Kelvin Moore. Dr. Patricia Wright, acting superintendent of public instruction, was also present.

Daniel Timberlake, assistant superintendent for finance, presented an overview of Standards of Quality (SOQ) funding to the members. His presentation covered: 1) an overview of direct aid to public education funding that covered federal, state, and local funds; 2) a summary of how state and local shares of funding are calculated using the composite index of local ability-to-pay; 3) an overview of SOQ funding for public education which included the different SOQ accounts such as Basic Aid, Sales Tax, and Special Education; and 4) general descriptive information concerning account descriptions, calculations, and funding formulas. A copy of this presentation is attached.

Follow-up questions were asked concerning the calculation of funded salaries in the SOQ. Dr. Wright provided background information concerning how English as a Second Language (ESL) positions were added into the SOQ in 2004.

The next meeting of the committee will be July 25, 2006.



Standards of Quality Funding

Presentation to the Board of Education

June 27, 2006

Daniel S. Timberlake
Assistant Superintendent for Finance

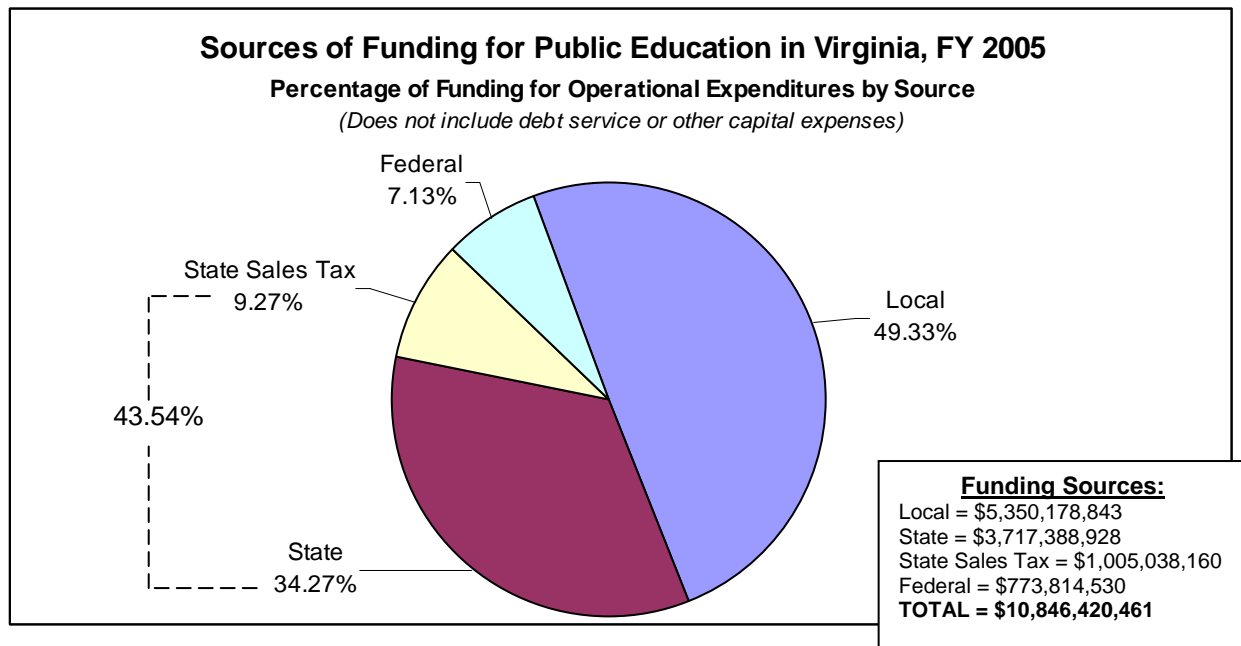
Standards of Quality Funding

- 1. Overview of Direct Aid to Public Education Funding**
 - 2. State and Local Shares**
 - 3. Standards of Quality Funding**
 - 4. Account Descriptions and Calculations for 2006-2008**
 - 5. Funding Formulas for 2006-2008**
 - 6. Statewide Totals Table**
 - 7. Questions**
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1. Overview of Direct Aid to Public Education Funding

Information in this section is based on the Governor's 2006-2008 Budget for Direct Aid to Public Education as introduced on March 27, 2006 in HB/SB 5002.

K-12 public schools derive the majority of their financial support from three sources:



- **Federal Funds:**

Primarily directed by four separate acts:

- Elementary and Secondary Education Act (ESEA) - Current reauthorization referred to as “No Child Left Behind.”
- Individuals with Disabilities Education Act (IDEA) - Governs funding for students with special needs.
- Carl Perkins Act - Governs funding for career and technical education programs.
- School Nutrition Act - Authorized under the US Department of Agriculture to subsidize the school nutrition programs in schools and to provide food and milk free or at reduced prices to students whose families meet certain income requirements.

- **Local Funds:**

- Much of it is directed by state or federal requirements.
- A good portion is required to match state funding.
- Almost all localities exceed their required local match for the SOQ and other programs.
- Capital expenses are primarily funded from local revenues.

- **State Funds:**

State funding for K-12 public schools can be broken into five areas:

- **Standards of Quality**

- The primary determinant of funding for school divisions
- Approximately \$5.17 billion in fiscal year 2007
- Approximately 87.79 percent of total state funds in fiscal year 2007

- **Incentive Programs**

- Provides funding for additional voluntary programs
- Approximately \$397.3 million in fiscal year 2007
- Approximately 6.75 percent of total state funds in fiscal year 2007

- **Categorical Programs**

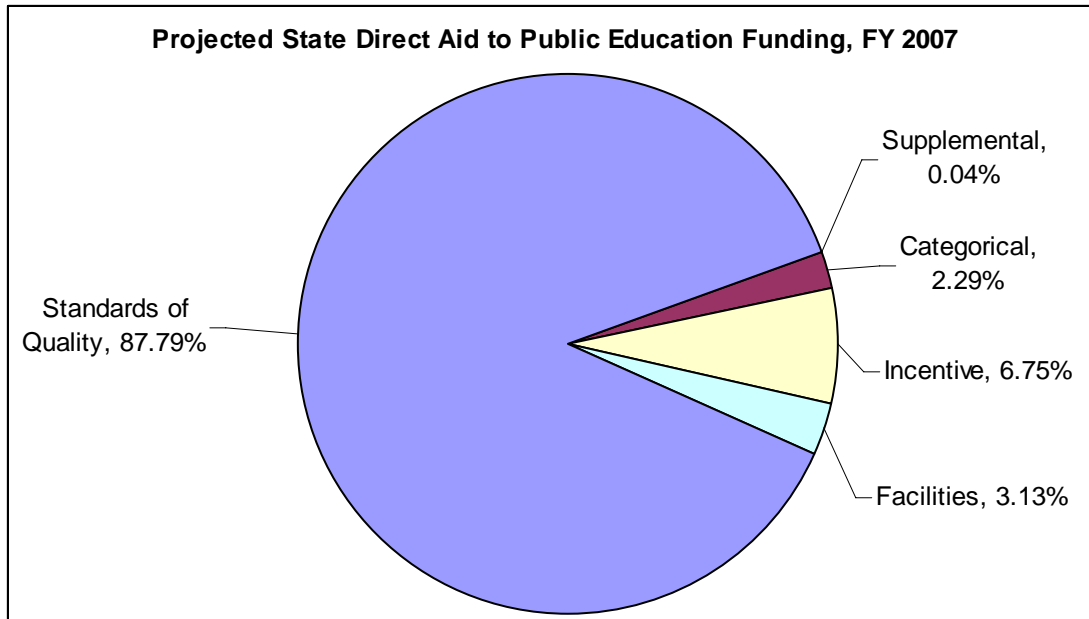
- State or federal statutes or regulations mandate much of this funding
- Approximately \$134.8 million in fiscal year 2007
- Approximately 2.29 percent of total state funds in fiscal year 2007

- **School Facilities**

- Provides funding for school construction and nonrecurring expenses
- Approximately \$184.4 million in fiscal year 2007
- Approximately 3.13 percent of total state funds in fiscal year 2007

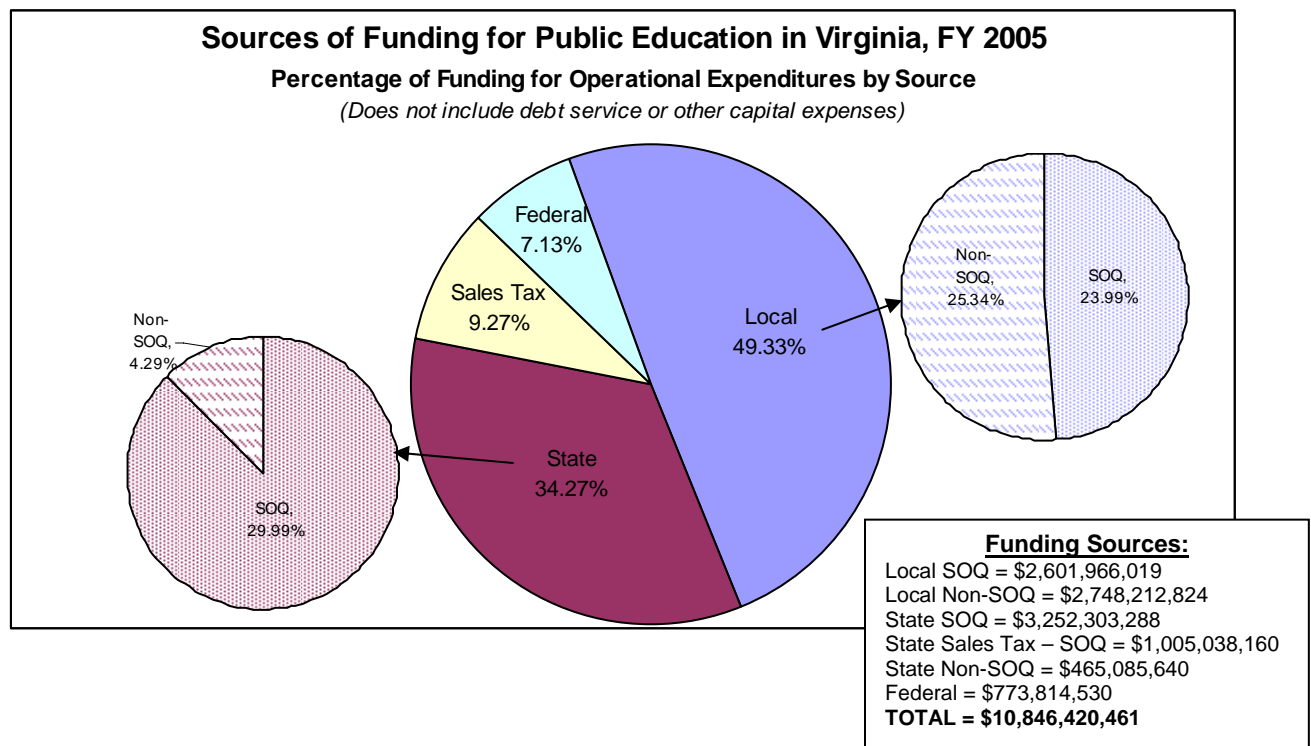
- **Supplemental Programs**

- Serve unique purposes; provided to specific recipients usually designated in the appropriation act
- Approximately \$2.4 million in fiscal year 2007
- Approximately 0.04 percent of total state funds in fiscal year 2007



Most Standards of Quality and Incentive program funding is distributed by formula. These programs make up approximately 94.5 percent of state funding and the majority of local spending for public education.

The following pie chart shows how operating expenditures are dominated by SOQ spending:



2. Determining State and Local Shares

Nearly all of these programs are “equalized” or adjusted for the composite index of local ability-to-pay. The composite index uses three elements to determine the “wealth” or “ability-to-pay” for each locality:

- True value of real property in the locality (factor weighted 50%);
- Local adjusted gross income (factor weighted 40%); and,
- Local taxable retail sales (factor weighted 10%).

Each element is indexed against the population of the locality (1/3 weight) and the public school student enrollment of the locality (2/3 weight) to derive per capita values.

Each index is adjusted to establish an overall statewide local share of 45 percent and an overall state share of 55 percent. The composite index is recomputed each biennium. The composite index of local ability-to-pay formula is:

Composite Index of Local Ability-to-Pay Formula

ADM Component =

$$.5 \left[\frac{\frac{\text{Local True Value of Property}}{\text{Local ADM}}}{\frac{\text{State True Value of Property}}{\text{State ADM}}} \right] + .4 \left[\frac{\frac{\text{Local Adjusted Gross Income}}{\text{Local ADM}}}{\frac{\text{State Adjusted Gross Income}}{\text{State ADM}}} \right] + .1 \left[\frac{\frac{\text{Local Taxable Retail Sales}}{\text{Local ADM}}}{\frac{\text{State Taxable Retail Sales}}{\text{State ADM}}} \right]$$

Population Component =

$$.5 \left[\frac{\frac{\text{Local True Value of Property}}{\text{Local Population}}}{\frac{\text{State True Value of Property}}{\text{State Population}}} \right] + .4 \left[\frac{\frac{\text{Local Adjusted Gross Income}}{\text{Local Population}}}{\frac{\text{State Adjusted Gross Income}}{\text{State Population}}} \right] + .1 \left[\frac{\frac{\text{Local Taxable Retail Sales}}{\text{Local Population}}}{\frac{\text{State Taxable Retail Sales}}{\text{State Population}}} \right]$$

Local Composite Index =

$$((.6667 \times \text{ADM Component}) + (.3333 \times \text{Population Component})) \times 0.45 \text{ (average local share)}$$

3. Standards of Quality for Public Education Funding

Background:

The Standards of Quality (SOQ) determine the majority of state Direct Aid funding. Total state funding will be more than \$5.17 billion in fiscal year 2007 and \$5.24 billion in fiscal year 2008. SOQ accounts represent approximately 87 percent of total state funding for public education annually.

The Constitution of Virginia establishes the SOQ. The specific requirements of the SOQ are prescribed in statute as the foundation education program to be offered by school divisions.

The SOQ prescribes minimum requirements for a system of public education, including programs and staffing levels.

Funding for the SOQ is determined primarily by the instructional staffing ratios established in the SOQ, as well as recognized support costs that are funded on a standard and prevailing cost basis.

The Constitution states that the Board of Education shall prescribe the standards, “subject to revision only by the General Assembly.”

The SOQ requires the establishment of the Standards of Accreditation (SOA), which are the regulations that govern the operation of individual schools as well as establishing graduation requirements for students.

The SOQ also establishes the Standards of Learning (SOL), which set out the minimum content that should be taught at specific grade levels for specific courses.

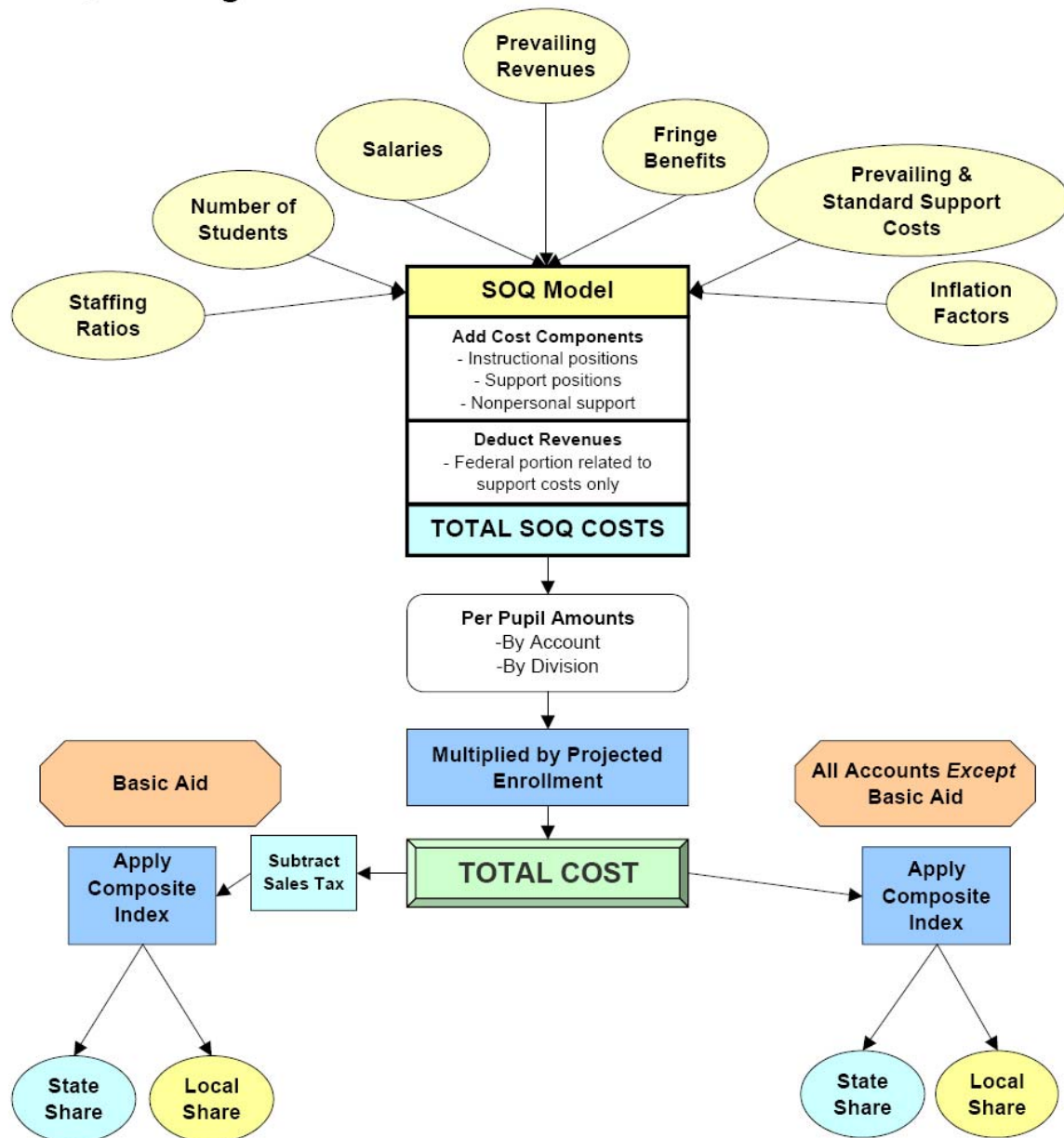
The SOQ budget includes funding for all of the programs required by the SOQ. The Standards of Quality include funding for:

- Basic Aid
- Special Education
- Career and Technical Education
- Prevention, Intervention and Remediation
- Remedial Summer School
- Gifted Education
- English as a Second Language
- Related fringe benefits for instructional positions funded by the above programs
- Sales Tax (One and ⅛ cent dedicated to public education)
- Textbooks

There are seven key components of the SOQ funding formula:

1. Number of students
2. Staffing ratios for teachers and other funded positions
3. Salaries of teachers and other funded positions
4. Fringe benefit rates
5. Standard and prevailing support costs
6. Inflation factors
7. Prevailing federal revenues related to support costs

SOQ Funding Process



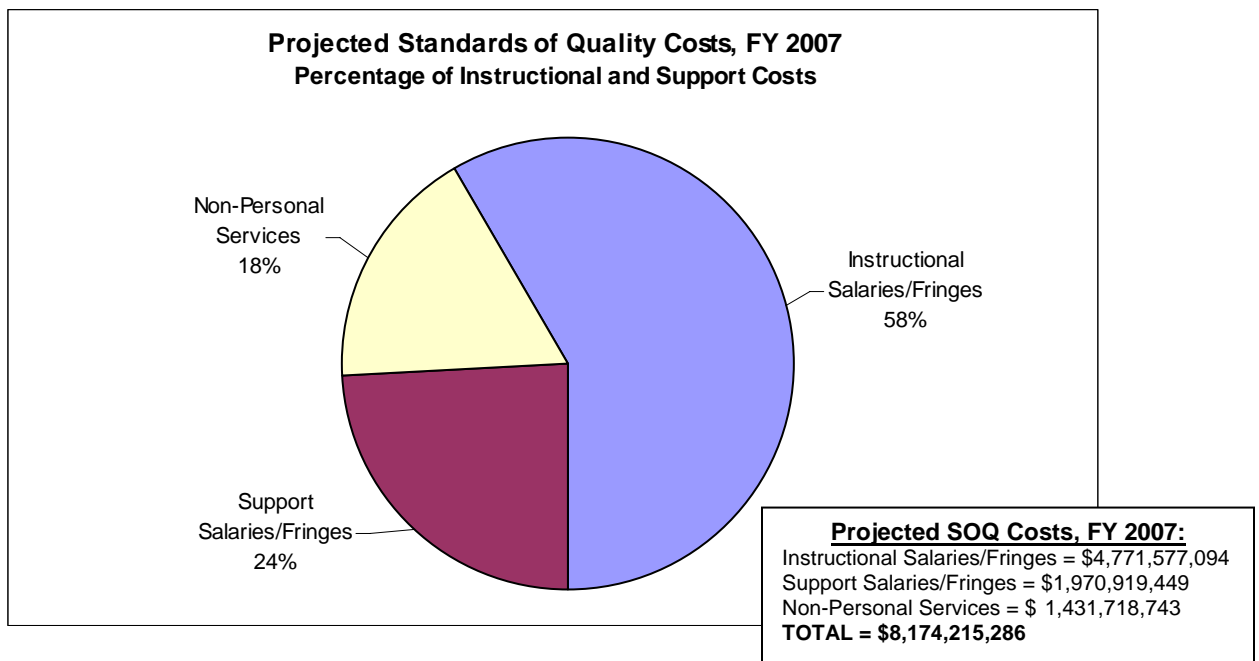
The SOQ accounts that provide funding for instructional services represent the instructional cost for those programs based on the required number of instructional positions (determined by the number of students and the required pupil-teacher ratios) and the salaries that are funded. The associated fringe benefit costs are funded in specific fringe benefit accounts (retirement, social security, and group life).

Approximately 82.5 percent of SOQ funding is for salaries and benefits of public school employees. The funded salaries for SOQ instructional positions for the 2006-2008 biennium are:

Instructional Position	FY 2007 Funded Salary	FY 2008 Funded Salary
Elementary Teachers	\$39,681	\$39,681
Elementary Assistant Principals	\$55,827	\$55,827
Elementary Principals	\$68,822	\$68,822
Secondary Teachers	\$41,615	\$41,615
Secondary Assistant Principals	\$59,784	\$59,784
Secondary Principals	\$75,268	\$75,268
Aides	\$13,828	\$13,828

In addition to funding for instructional positions, Basic Aid includes funding for support costs such as technology, transportation, operations and maintenance, professional development, attendance and health, and administration. These costs are funded on a statewide prevailing basis.

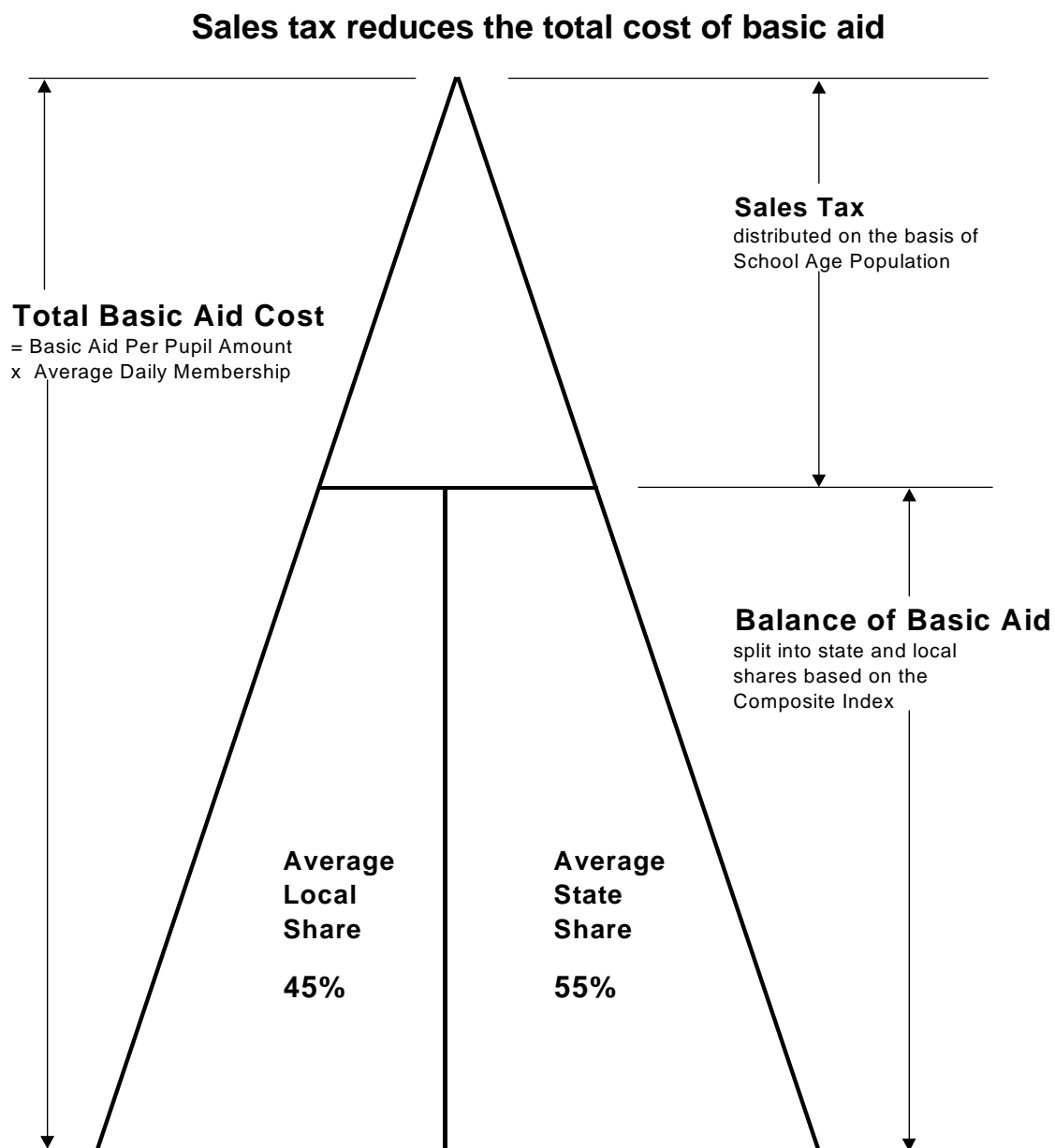
Basic Aid also includes support cost funding for support technology and school-based clerical positions. These costs are funded on a standard basis.



After a total cost is determined for each account, the cost is then converted to a per pupil amount. The per pupil amounts are then multiplied by the projected average daily membership (ADM) for each division; from this, the total cost of each SOQ account is determined.

For Basic Aid, the total cost is first reduced by the estimated amount of state sales tax that will be distributed to each school division. The remaining amount for Basic Aid and the total amount for the other SOQ accounts are then split into state and local shares based on each locality's composite index.

State and Local Shares of Total Basic Aid Cost



Note: State and local shares will vary by locality based on each locality's composite index.

4. Account Descriptions for 2006-2008

Standards of Quality Programs

Basic Aid

Basic Aid includes funding for the basic instructional positions derived from minimum student to teacher ratios required by the Standards of Quality (SOQ) [see §22.1-253.13:2, Code of Virginia] for each school division with a minimum ratio of 51 instructional personnel for each 1,000 pupils; plus all other personal and non-personal support costs funded through the SOQ.

Career and Technical Education

State funds are provided to support career and technical education courses for students in grades 6-12. The funding supports the salary cost of instructional positions based on the class size maximums established by the Board of Education [see 8VAC20-120-150].

English as a Second Language

State funds are provided to support local school divisions providing the necessary educational services to children not having English as their primary language. The funding supports the salary and benefits cost of instructional positions at a standard of 17 positions per 1,000 ESL students.

Gifted Education

Gifted education funding supports the state share of one full-time equivalent instructional position per 1,000 students in adjusted ADM.

Group Life

This funding supports the state share of cost of employer contributions to the Virginia Retirement System (VRS) for Group Life benefits for funded SOQ instructional positions.

Prevention, Intervention, and Remediation

SOQ Prevention, Intervention, and Remediation funding provides remedial services to children who need additional instruction. Funding is disbursed to local school divisions to support the state share of additional professional instructional positions ranging from a pupil teacher ratio of 10:1 to 18:1 based on the division-level failure rate on the SOL English and math tests for all students at risk of educational failure (a three-year average of free lunch eligibility data is used as a proxy for at risk students).

Remedial Summer School

Remedial Summer School programs provide additional education opportunities for at-risk students. These funds are available to school divisions for the operation of programs designed to remediate students who are required to attend such programs during a summer school session, or during an intersession in the case of year-round schools. The state share of per pupil funding is provided to support a thirty-day summer program.

Sales Tax

A portion of net revenue from the state sales and use tax dedicated to public education is distributed to counties, cities, and towns in support of the Standards of Quality. The distributions are based on each locality's pro-rata share of school age population as based on the latest triennial Census count of school aged population.

Social Security

This funding supports the state share of cost of the employer share of Social Security costs for funded SOQ instructional positions.

Special Education

Funding for special education provides for the state share of salary costs of instructional positions generated based on the staffing standards for special education. Each special education student is counted in their respective school and up to three disabilities per student may be recognized for calculating instructional positions for funding.

Textbooks

State law requires that students attending public schools receive free textbooks. State funding is provided on a per pupil basis based on the statewide prevailing per pupil cost of textbooks incurred by school divisions.

VRS Retirement

This funding supports the state share of cost of employer contributions to VRS for retirement benefits for funded SOQ instructional positions.

5. Funding Formulas for 2006-2008

Basic Aid

$((\text{Per Pupil Amount} \times \text{Adjusted ADM}) - \text{Sales Tax}) \times (1 - \text{Composite Index}) = \text{State Share}$

Career and Technical Education

$((\text{Per Pupil Amount} \times \text{Unadjusted ADM}) \times (1 - \text{Composite Index})) = \text{State Share}$

English as a Second Language

$((\text{Seventeen teachers per 1,000 ESL students} \times \text{Average salary and fringe benefits}) \times (1 - \text{Composite Index})) = \text{State Share}$

Gifted Education

$((\text{Per Pupil Amount} \times \text{Adjusted ADM}) \times (1 - \text{Composite Index})) = \text{State Share}$

Group Life

$((\text{Per Pupil Amount} \times \text{Adjusted ADM}) \times (1 - \text{Composite Index})) = \text{State Share}$

Prevention, Intervention, and Remediation

$((\text{Per Pupil Amount} \times \text{Unadjusted ADM}) \times (1 - \text{Composite Index})) = \text{State Share}$

Remedial Summer School

$((\text{Per Pupil Amount} \times \text{Eligible Number of Students}) \times (1 - \text{Composite Index})) = \text{State Share}$

Sales Tax

$((\text{School division's triennial Census count} / \text{Statewide total school age population from triennial census}) \times \text{Total state 1-1/8\% sales tax estimate}) = \text{Local Distribution}$

Social Security

$((\text{Per Pupil Amount} \times \text{Adjusted ADM}) \times (1 - \text{Composite Index})) = \text{State Share.}$

Special Education

$((\text{Per Pupil Amount} \times \text{Unadjusted ADM}) \times (1 - \text{Composite Index})) = \text{State Share}$

Textbooks

$((\text{Per Pupil Amount} \times \text{Adjusted ADM}) \times (1 - \text{Composite Index})) = \text{State Share}$

VRS Retirement

$((\text{Per Pupil Amount} \times \text{Adjusted ADM}) \times (1 - \text{Composite Index})) = \text{State's Share.}$

6. Statewide Totals Table

2006-2008 DIRECT AID TO PUBLIC EDUCATION

Based on the Governor's 2006-2008 Budget for Direct Aid to Public Education
(As introduced on March 27, 2006, in HB/SB 5002)

Appropriated State Totals – Projected

Subject to Final General Assembly Action

		FY 2007 State Share	FY 2008 State Share
I.	Basic Aid ¹	2,914,171,267	2,905,298,669
	Sales Tax	1,266,460,000	1,336,490,000
	Textbooks	68,624,503	69,174,309
	Vocational Education	60,819,705	61,211,769
	Gifted Education	27,832,572	28,055,387
	Special Education	339,783,294	342,060,025
	Remedial Education ²	61,744,796	61,744,937
	VRS Retirement	202,998,932	204,557,925
	Social Security	159,121,606	160,349,864
	Group Life	10,186,079	10,262,685
	English as a 2nd Language	31,816,457	38,161,251
	Remedial Summer School	24,659,975	25,496,999
	Subtotal - SOQ:	5,168,219,186	5,242,863,820
II.	Lottery ³	426,100,000	426,100,000
	School Construction	27,499,995	27,500,004
	Subtotal - Facilities:	184,440,840	184,440,849
III.	Alternative Ed	6,213,366	6,400,425
	At-Risk	63,443,910	63,263,936
	At-Risk Four-Year-Olds	46,304,352	47,230,439
	Compensation Supplement	74,998,798	129,658,378
	Early Reading Intervention	11,859,709	11,955,475
	Enrollment Loss	7,797,637	7,976,037
	Governor's School	12,344,132	12,639,912
	ISAE	2,247,581	2,247,581
	K-3 Primary Class Size	83,788,567	83,828,570
	School Breakfast Program	1,172,020	1,172,020
	SOL Algebra Readiness	8,442,174	8,472,034
	Special Education - Regional Tuition	59,989,862	66,397,321
	Supplemental Basic Aid	532,976	530,395
	Mentor Teacher	1,475,000	1,475,000
	No Child Left Behind/Education for a Lifetime	13,153,734	12,592,252
	Project Graduation	2,774,478	2,774,478
	Special Education - Inservice	600,000	600,000
	Special Education - Vocational Education	200,089	200,089
	Subtotal - Incentive:	397,338,385	459,414,342

Appropriated State Totals - Continued

		FY 2007 State Share	FY 2008 State Share
IV.	Adult Education	1,051,800	1,051,800
	Electronic Classroom	2,256,908	2,256,908
	Foster Care	11,109,888	12,047,112
	School Food	5,801,932	5,801,932
	Special Education - Homebound	6,504,072	7,171,223
	Special Education - Jails	2,868,499	2,954,553
	Special Education - Hospitals	29,593,951	30,962,505
	Vocational Education - Categorical	10,100,829	10,100,829
	Adult Literacy	2,655,000	2,655,000
	American Indian Treaty Commitment	53,805	53,805
	Debt Service on VPSA Equipment Notes	62,763,354	64,058,916
	Subtotal - Categorical:	134,760,037	139,114,583
V.	Jobs for Virginia Graduates	400,000	400,000
	Project Discovery	900,000	900,000
	Small School Division Assistance	200,000	200,000
	Southside Virginia Technology Consortium	100,000	100,000
	Virginia Public Education Consortium	200,000	200,000
	Virginia Career Education Foundation	50,000	50,000
	Van Gogh Outreach Program	97,750	97,750
	Communities in Schools	500,000	-
	Subtotal - Supplemental:	2,447,750	1,947,750
GRAND TOTAL:		5,887,206,197	6,027,781,344

¹ Basic Aid total includes lottery transfer amount.

² Remedial Education total includes lottery transfer amount.

³ Lottery total includes local distribution only. Basic Aid and Remedial Education transfer are deducted from the appropriated total.

7. Questions